

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:		ACTION	INFO	DATE	INITIAL
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Remarks To # 13: For direct response,
please.

H/ Executive Secretary
14 NOV 86
Date

NEWT GINGRICH
SIXTH DISTRICT, GEORGIA

COMMITTEES:
PUBLIC WORKS AND
TRANSPORTATION
HOUSE ADMINISTRATION

WASHINGTON OFFICE:
1005 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, DC 20515
(202) 225-4501



86- 5259x

Congress of the United States
House of Representatives

November 7, 1986

8351 JONESBORO ROAD
SUITE E
MORROW, GA 30280
(404) 988-3219

POST OFFICE BOX 848
GRIFFIN FEDERAL BUILDING
GRIFFIN, GA 30224
(404) 228-0389

CARROLL COUNTY COURTHOUSE
CARROLLTON, GA 30117
(404) 834-8398

COUNTY OFFICE BUILDING
22 EAST BROAD STREET
NEWNAN, GA 30263
(404) 253-8355

Hon. William Casey
Director
Central Intelligence Agency
General Delivery
Washington, D.C. 20505

Dear Bill:

As we enter the 100th Congress, we are faced with a number of very important decisions for America. It is clear that competition in a world market is going to require new thinking and new approaches to the way America does business.

During the next few weeks I will be making a series of nine reform speeches for the Georgia Business Council Pre-Legislative forum outlining the kind of changes which are necessary if America is to be competitive in the world market.

My first speech on retirement and medicare is important because it addresses the largest social welfare program in America. No real changes in our savings rate or our approach to retirement can take place unless we are willing to tackle this very difficult issue.

I know that for many of us, social security has been seen as a sacred cow. If the challenge is to make America the leading competitive nation on the planet, then anything can be discussed. The attached plan guarantees that everyone 40 and over will receive precisely the benefits they receive in the current system while the transition period for the baby-boom generation provides for retirement in a way which is sound, increases savings, and which makes America more competitive.

I hope you find it interesting and your comments on it would be appreciated. I look forward to seeing you when Congress convenes.

Sincerely,

Newt Gingrich

NG/kvb
Enclosure



L-231-11

TRANSMITTAL SLIP		DATE
TO: <i>JRM</i>		
ROOM NO.	BUILDING	
REMARKS: <i>only</i>		
<i>ER 5259x</i>		
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<i>reply necessary</i>		
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FROM:		
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FORM NO. 1 FEB 56 241 REPLACES FORM 36-8 WHICH MAY BE USED. (47)

-INTRODUCTION-

As America enters 1987, we will face challenges so powerful and so fundamental that we must develop solutions of equal power and depth. If the 100th Congress is willing to openly and honestly address these challenges, it could prove to be one of the most creative and dynamic in American history. While many of the proposed solutions will prove too dramatic and too powerful to be introduced, debated, and passed in one Congress, this must be the Congress in which they begin. We simply have no choice. Consider the three basic facts that confront us and our children.

First, we are continuing to pile up enormous federal deficits. This undermines our economic strength and mortgages our children's future. Second, we are not competitive in the world market. We are not facing up to the difficult challenges presented by Japan, Taiwan, South Korea, West Germany, and other countries. An uncompetitive America is by definition a poorer America. Finally, if we don't solve our budget deficit and our trade deficit problems, we will lack the economic strength to defend ourselves and our allies. For over forty years a strong American economy paid for the military and diplomatic leadership that contained communism and terrorism. The failure to solve our budget and trade problems will lead inevitably to a failure of the western alliance and may lead to the collapse of our freedoms and our security.

When Ronald Reagan took office in 1981, inflation was at 13%, interest rates were 22%, and our economy was on the verge of collapse. President Reagan pulled us back from the brink of economic disaster. That achievement makes him the most important president since Franklin Roosevelt. However, we cannot expect President Reagan to solve all of our problems during his remaining two years in office.

In a free society, no one man can create solutions for a nation of 250 million people. Each one of us must do our part to invent an opportunity society. While Ronald Reagan is buying us the time to do the job that must be done, it is our generation that must rise to the challenge.

Our solutions must be as large and bold as the problems they are designed to address. Most politicians will back away from large, bold proposals because they feel the American people are frightened by change. That attitude underestimates the courage and intelligence of the American people. Given adequate information and committed leadership, the American people will support dramatic changes. The American people know, as Franklin Roosevelt taught us, that "We have nothing to fear but fear itself." Indeed the courage to accept change is the American way of life.

This was driven home to me at a meeting of the American Association of Retired Persons in Cedartown, Georgia. Two-thirds of those attending recalled living in houses without electricity. They had experienced other dramatic changes in their personal lives. From gas lamps to electric lights, to refrigerators and freezers, air conditioners, radio, television, cable, videotape recorders, electric stoves, microwaves, washers and dryers, dish washers, the list is virtually endless and the changes were intensely personal. The

question we must now face is what new changes are necessary and how do we make them.

Ronald Reagan has given our generation the opportunity to make America once again a fiscally responsible, economically competitive nation capable of leading the free world. It is up to us to use the opportunity he has given us. The following proposed solution is not the only way to meet the challenges we face, others will have good ideas and useful improvements. However, we must begin to look for new solutions. With this in mind, let me give you an example of one possible solution.

**A STABLE, PERMANENT SOCIAL SECURITY SYSTEM:
AN OPPORTUNITY SOCIETY ANSWER TO JAMES ROOSEVELT**

Social Security and Medicare are the heart of providing for our parents and grandparents. Indeed, these two systems form the base of our plans and expectations about savings and retirement.

Social Security is the largest domestic program with over 36 million people receiving checks every month. The Social Security tax affects nearly every working American. For most workers it takes a bigger tax bite out of their paycheck than the federal income tax. This coming year the highest Social Security tax on an employed individual will be \$5,405. That figure includes both the individual's contribution and the employer's matching contribution which has to be earned by the worker. After all, the matching contribution is really a hidden tax on income.

Dramatic changes in life span and in the work force have made the Social Security system increasingly unsound. In 1935, when Franklin Roosevelt first proposed Social Security and set the retirement age at 65, the average American only lived to be 63. If we had the same ratio of longevity to retirement age today, the retirement age would be 76. In effect, we have added 11 years worth of retirement benefits to the same tax base. Since the age group 85 and over is the fastest growing group of Americans, the burden on working Americans will only intensify in the future.

Another dramatic change has been the shift from a large work force supporting a small retirement population to a much more nearly equal ratio of workers to retirees. Originally 13 workers supported 1 retiree. Today 3 workers support each retiree and by the next generation that will decline to a 2 to 1 ratio. The increased tax burden on working Americans caused by the change in worker to retiree ratio is made even more unbearable because of the increase in the relative payments to retirees.

Social Security was originally designed to provide only a small portion of an individual's overall retirement needs. However, as politicians raised the payments to retirees, Social Security began to be considered the primary source of retirement income. Today 62% of those over 65 receive more than one-half of their total retirement income from Social Security, and 14% of those over 65 receive all of their income from Social Security. This has increased the tax burden on working Americans dramatically. Today's Social Security payroll tax burden is 60 times greater than the tax paid by a worker in 1950.

The result of all these changes is an unstable Social Security system with an uncertain future. That uncertainty worries everyone and has been exploited by some. I was outraged when I first saw the letters from James Roosevelt's National Committee to Preserve Social Security and Medicare. The letters, sent out in envelopes marked "Official Social Security Information" asked our grandparents to send in \$10 so they could keep getting their retirement check. There are heartrending stories of senior citizens walking into local Social Security offices with their \$10 checks hoping they could preserve the Social Security system. Liberals and Conservatives, Republicans and Democrats have expressed their disgust with the

scare tactics and misleading techniques used by Roosevelt and his National Committee to Preserve Social Security and Medicare.

It occurred to me, however, that our grandparents weren't being frightened by the letters. They had already been frightened by the shaky finances of the Social Security and Medicare systems. The letters were simply preying on a fear that already existed.

Our grandparents are worried because they know full well the things our politicians have been afraid to discuss for over a generation. First, we don't save enough either as individuals or as a nation. We are simply borrowing too much and saving too little. Second, we have not rebuilt the Social Security financing system to take into account changes in life span, birth rates and the structure of the work force. Third, the FICA Social Security tax discourages savings, discourages the expansion of small business, discourages new jobs and weighs most heavily on low and middle income workers. Fourth, the FICA tax encourages importing foreign goods because they aren't affected by it and it makes American products more expensive to sell overseas. This makes us even less competitive in the world market. If we can't compete, we can't create jobs; and if we can't create jobs, we can't pay for our retirement system. Our grandparents know that a stable Social Security system depends on a competitive, prosperous job-creating American economy. The real answer to James Roosevelt's letters is to create a financially sound retirement system so senior citizens won't have to worry. Then they will just throw away his appeals for money.

The following proposal is one way to create a permanent, stable Social Security system that will increase savings, increase jobs, and decrease our fears about retirement. It is an Opportunity Society answer to James Roosevelt's letters. Here is how it would work:

On January 1, 1989 the FICA Social Security tax would be abolished with a provision that employers would pay the matching 7% to workers. Workers over 40 would have their take-home pay increased by the full 14%. Workers under 40 would have their take-home pay increased by 4% and the other 10% would go into a new mandatory Individual Retirement Account of their choice. The Social Security and Medicare trust funds would be taken off budget so that politicians could not use them to balance the rest of the budget. Finally, a new off budget trust fund would be created to raise all senior citizens above the poverty level. We would establish the principle that our grandparents should not live in poverty.

In order to replace the FICA tax and finance the new anti-poverty retirement fund, we would adopt a "Value Added Tax." This VAT would be a simple across-the-board sales tax designed to raise the amount currently raised by the FICA and the amount necessary to meet the poverty level requirements for our poorer grandparents. By keeping the VAT simple we meet the main objection of small businesses who fear the complexity of European VATs. By keeping the VAT off budget and dedicated to these trust funds we meet the major worry of conservatives who see it as a relatively easy tax for liberals to increase in the future. Defining the VAT as our new Social Security tax will keep it dedicated and narrow in scope.

A VAT has three great advantages over the FICA. First, under the General Agreement on Tariffs and Trade, it can be applied to imports and rebated on exports. This will slow down imports to the U.S. and increase exports from the U.S. thus creating jobs here at home and strengthening our balance of trade. Many of our trading partners already do this.

Second, the FICA is anti-savings because workers lose the money to taxes before they can take it home. Now workers will have the money in take-home pay and they can decide how much to save or spend. This shift from FICA to a VAT will automatically lead to an increase in our savings rate.

Third, the FICA is a narrow anti-jobs tax that weighs heavily on low and middle income workers and on small business. The VAT will uncover much of the underground economy and will broaden the support for Social Security and Medicare to include those who live off investment income. Today those people pay no FICA because they have only investment income. Under the new Social Security VAT the rich will help pay for retirement.

For simplicity's sake current retirees would be treated as if the FICA tax still existed and they would be given the same retirement benefits they now have under the present system with two exceptions. First, current retirees below the poverty level would receive an extra check to bring them up to the poverty level. Second, there would be a one time increase in Social Security payments to offset the VAT so our grandparents would not face a reduction in their standard of living. Americans 40 and over but under 65 would also be grandfathered into the Social Security retirement system. Most of them have been paying into Social Security between 25 and 45 years. They have earned significant retirement benefits through their past payments into Social Security. Furthermore they are too close to retirement to build the kind of individual retirement nest egg the younger generation will be able to accumulate. When those under 40 reach retirement age they would only receive the Social Security benefit designed to keep senior citizens above the poverty level. Any additional retirement benefits would come from their personal IRA. As a further inducement to save, everyone would be given the opportunity to save up to \$5,000 a year in a voluntary individual retirement account.

Since this proposal is a fundamental reform to establish a permanent, stable Social Security system there are two other steps we would take. First, we would abolish the tax on Social Security benefits which punishes those prudent enough to have saved for their retirement. Second, we would abolish all provisions which discourage working after 65. Never again should someone lose benefits just because they wanted to maintain a productive life.

This permanent, stable Social Security system will dramatically improve America's competitive role in the world market. The mandatory savings for those under 40 will increase total personal savings from \$143.3 billion to \$227.3 billion during the first year (based on the 1985 savings rate). This \$84 billion increase in personal savings, a 60% increase, will help lower interest rates and increase the amount of money available to build factories and create jobs. By the late 1990's the U.S. could have the lowest cost of

capital and probably the lowest interest rates in the industrial world. Multi-national companies will start building new factories in the U.S. as the lower cost of capital is combined with the elimination of our current 14% FICA tax on labor. The new Social Security VAT will discourage imports and encourage exports. The shift from FICA to VAT will encourage small business and entrepreneurs. The abolition of the anti-jobs FICA tax will encourage new job creation.

While many politicians are still afraid to mention Social Security, I am convinced this generation is ready for honest talk and real leadership. Our grandparents are tired of being frightened. They want a sound, stable, permanent retirement system. But, they want their grandchildren to be given a fair break. Our young workers are tired of paying heavier and heavier taxes for a system they believe won't be there when they are ready to retire. They would like a chance to save for their own retirement. But, they love their grandparents and want to help take care of them.

I believe the American people are ready for a real debate about the future of retirement in a changing world. I believe that together we can design a Social Security system that is pro-savings, pro-jobs, pro-small business, pro-American competitiveness in the world market and that allows our grandparents to relax knowing we have truly provided for their retirement years.

-CONCLUSION-

This proposed solution is not the only way to solve our problems. Others will have good ideas and useful improvements. The key is to recognize that our budget deficits, our international trade problems and the demands of free world leadership require that our generation rethink the liberal welfare state and transform it into a true opportunity society. The real dividing line in American politics for the next decade will be between those who maintain that we can avoid fundamental change and those who believe that we must totally rethink our welfare state.

I have no argument with those who dislike my proposed solutions and offer their own solutions. There is enough work to be done for all of us to contribute. My argument is with those who will object to my proposals but have no positive ideas of their own. Their negativism and their nitpicking is part of the problem, not part of the solution.

Those of us who believe America faces real challenges will find the American people intuitively agree and are hungry for leadership. Those who believe the liberal welfare state can continue on without major changes will find the American people skeptical and disbelieving. The American people know that each generation must earn the right to be free, prosperous, and safe.

Ronald Reagan, in his first inaugural in 1981, said "We have every right to dream heroic dreams, after all, we are Americans." The President knows that being an American is not a function of color, sex or nationality. President Reagan knows and most Americans will agree that being an American is a process, a set of principles, and a way of pursuing personal happiness while working together for the common good.

These proposals are offered in the belief that the overwhelming majority of Americans are ready to face reality, to think through solutions and to work to maintain the right to dream heroic dreams.